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TO RUEHC/SECSTATE WASHDC 5438  
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RUEHBJ/AMEMBASSY BEIJING 1252  
RUEHBY/AMEMBASSY CANBERRA 0035  
RUEHKA/AMEMBASSY DHAKA 4398  
RUEHLO/AMEMBASSY LONDON 1877  
RUEHNE/AMEMBASSY NEW DELHI 3627  
RUEHUL/AMEMBASSY SEOUL 7133  
RUEHKO/AMEMBASSY TOKYO 4737  
RUEATRS/DEPT OF TREASURY WASHDC

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SUBJECT: GOB TRIES TO SQUEEZE TAXPAYERS

REFS: A) RANGOON 1017, B) RANGOON 0456

11. (SBU) Summary: Eager to squeeze out more revenues, Burma's military regime has pushed tax officials to clamp down on tax evaders. Government efforts to increase tax collection have increased revenues somewhat, but many still bribe their way out of payments. End Summary.

#### Salaries Rise, Taxes Rise

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12. (SBU) In April, the GOB increased civil service salaries from 400% to over 1,100% (ref B). The Governor of the Central Bank of Myanmar, Kyaw Kyaw Maung, stressed at the time that the government had enough taxes to finance the raise and minimize the inflationary impact of the raises. However, prices of most commodities soared after the salary announcement. A recent IMF mission to Burma noted that the GOB continues to run a significant budget deficit and finance it by printing money. To reduce the deficit, which the IMF estimates could reach 30-40% in the coming year, officials have been ordered to improve the rate of tax collection.

#### Locals Safe, Foreigners Targeted

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13. (SBU) Early rumors that the income tax rate for all workers paid in foreign exchange (including many at embassies, international businesses, and NGOs) would be raised from 10% to 25%, and that civil servants' net income would be cut 10%-15% through automatic withholding of new taxes, caused a flurry of public concern in April and May, but never materialized. The GOB responded to the rumors by issuing an official notification in July 2006 that exempted civil servants from income tax. Sources tell us that regime leaders instructed the Finance Ministry to delay its planned imposition of income tax on civil servants until after the 2006-07 fiscal year. According to the existing income tax law, workers who earn K. 2,500 (about US\$2) or more per month are required to pay income tax. Tax officers admitted to us that this meager income threshold level is unrealistic and does not take into account years of inflation.

14. (SBU) The Ministry of Finance and Revenue issued its annual notifications about commercial and income tax rates in June, two months later than normal, but did not make any changes to the previous year's rates. The GOB did,

however, add a new tax on the sale, exchange, or transfer of shares, assets, ownership, or benefit of oil and gas companies, retroactive to June 15, 2000. The new tax ranges from 40% to 50% of the assets' value and is to be levied in foreign currency. An oil industry contact told us that this new tax created a significant deterrent for any companies that wished to divest their Burmese oil and gas assets. However, since none of the major foreign firms are contemplating doing so, it will have minimal impact on government revenues.

The Tax Man Cometh (with Hand Out)

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¶5. (U) The GOB's push to improve tax collection reaped some early benefits. According to government figures, total tax receipts in FY05-06 (April-March) were K.441 billion, an increase of over 66% from FY04-05. In the FY06-07 budget, the GOB aims to collect about K.425 billion in taxes, over 50% from commercial taxes on trade transactions, and 40% from income and profit taxes. The GOB's goal for tax receipts is almost double last year's target (ref A).

¶6. (U) Despite the improvement in collections, tax evasion remains a serious problem. Officials from the Internal Revenue Department recently sent messages to private companies and individuals through local media warning that they would soon introduce new measures to snare tax evaders. Articles describe some new efforts, including review of business licenses renewals and approval of overseas travel only for people who can show evidence that their annual taxes have been paid. A prominent local manufacturer told us that tax officials now scrutinize import licenses to compare the amount of raw materials

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imported with records of products sold to catch companies that traditionally underreported sales to minimize taxes.

¶7. (SBU) Despite these threats, tax officers still negotiate to reduce the amount of taxes those with cash or connections pay. Our business contacts at major trading and manufacturing companies said they have not experienced any new taxation problems, and confirmed that many taxpayers still evade taxes by bribing township tax officers. The director of a trading firm told us that a garment manufacturing company owner recently evaded about K.100 million in income tax by giving K.30 million to the township tax officer. Another business contact who operates successful bakery shops in Rangoon said that the existing sales tax rate of 10% was too high, since most small and medium sized companies do not even earn 10% profit. Therefore, he said, almost every restaurant, cafe, shopping mall, and private business continues to bribe tax officers to reduce their tax payments as they have in the past.

¶8. (SBU) Comment: More efficient tax collection is a valid means to finance government services and reduce budget deficits in most countries. In Burma, however, the regime's economic mismanagement allows all but the clumsiest to escape the tax noose, and lets officials at every level pocket a percentage of tax payments. Since the public never sees any of the results of their tax payments in terms of government investment in education, health or social welfare, they have little incentive to pay anyway. End comment.

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